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Enabling Slum Redevelopment in Mumbai: Policy Paradox in Practice

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ABSTRACT *This paper examines the complexities involved in "enabling" the provision of housing in developing countries. In conventional thinking the enabling strategy focuses on the ability of the private sector, specifically the "markets," to deliver housing. Enabling has been promoted as consisting of, primarily, decentralization, privatization, deregulation and demand-driven development. The focus of the policy prescriptions is to reduce the "damaging" involvement of the State. This paper presents evidence from slum redevelopment programs in Mumbai, India, to demonstrate that enabling is likely to be much more complicated. Paradoxically, enabling housing provision through market mechanisms may require four levels of seeming policy contradictions - both decentralization and centralization; both privatization and public investment; both deregulation and new regulations, and both demand-driven and supply-driven development. In other words, enabling is likely to require a different type of State involvement, not necessarily less State involvement. A complex and more sophisticated role of the State is necessary to provide the institutional support for well functioning property markets, as well as to capture the opportunities high value property markets provide.*

Key words: Housing, Upgrading, Bombay, Decentralization

Introduction

Since the late sixties and the seventies, in developing countries, housing advocates have advised governments to abandon their policy of direct public housing provision and instead focus on enabling communities to choose and develop their housing. In response, many governments, with the assistance of multilateral and bilateral agencies, focused on upgrading slums and providing service plots to the urban poor. However, evaluation studies concluded that such government-administered projects were heavily subsidized and badly managed, and thereby, financially unsustainable and non-replicable (Keare & Parris, 1992). Since the eighties and through the nineties, international agencies led by the World Bank advised governments to refrain from any direct role in housing provision. Instead, they recommended that governments abandon previous policy, rely on market-actors and enable housing provision through policies of decentralization, privatization, deregulation and demand-driven development (World Bank, 1993). Towards the end of the century, however, the World Bank suggested that governments have a role to play in institutional development (World Bank, 2000).

Nonetheless, the underlying assumption of the conventional advice is that the involvement of the State in the provision of housing must be minimal. To what extent does a simplistic model of enabling capture the potential role of governments in housing provision? Does working through the markets require that governments adopt a hands-off approach? What kinds of problems are encountered in housing delivery? What kind of role can governments play in creating an enabling environment, and in housing provision? These are the questions that this paper explores.

The paper is based on evidence from the slum redevelopment strategy in Mumbai (Bombay). Slum redevelopment involved demolishing slums and rebuilding them at a higher intensity and density, including cross-subsidized new medium-rise apartment blocks for the slum dwellers. However, the paper focuses on the institutional roles and not the strategy. The evidence indicates that slum redevelopment is not going to be a panacea for Mumbai. The evidence also suggests

that the popular conception of the enabling approach is simplistic and one-sided. The appropriate role of the State in enabling housing provision is complex. Paradoxically, enabling involves not only decentralization but also some form of centralization; not only privatization but also new kinds of public investment; not only deregulation but also enforcement of new regulations; and not only demand-driven development but also supply-driven initiatives. In other words, enabling housing provision through market mechanisms requires a different type of State involvement, not necessarily less State involvement.

The body of this paper is organized into three parts. The first is a review of the literature and traces the origin and evolution of the enabling approach in housing policy. The second presents evidence from the slum redevelopment programs in Mumbai. The final section analyzes the case in the context of its policy lessons.

The objective of the paper is to use Mumbai's slum redevelopment experience to understand the institutional realities involved in the provision of housing. Policy prescription must be based on a grounded understanding of the functioning of markets in developing countries. Admittedly, the Mumbai case appears unique. However, limited institutional support for property markets is not just a characteristic of this city. Mumbai may represent an extreme case, but the issues raised and the lessons learnt are, hopefully, relevant across a spectrum of cities and countries.

Literature Review: Enabling the Communities and Enabling the Markets

This section, starts by tracing the origin of the policy recommendation that governments should limit direct involvement in the provision of housing but should enable individuals and communities to decide on their own housing. In the eighties and the nineties, this liberal vision was elaborated on by a neo-liberal belief that the for-profit private sector provided the means for creating more housing choices and therefore it was recommended to governments to enable the markets. This interpretation of enabling in housing aligns housing policy with the policy approaches recommended in other areas of development. At the core of the advice is

the call for a reduction in the role of the government and more room for the markets to do their "magic."

Enabling the Communities

Towards the middle of the twentieth century, many developing countries embarked on ambitious public housing programs. Soon, however, it became evident that most governments were being unsuccessful in their new role as housing providers. John Turner was one of the strongest critics of the policy (1967; 1972; 1977). He argued that governments should cease doing what they did badly, i.e., building and managing housing. He proposed that instead of central institutions providing housing, users should be the principal actors. He claimed that at the individual and community level, the exercise of housing provision could be managed more efficiently. His contention was substantiated with evidence from the field (Hasan 1988; Peattie, 1968). According to the "Turner school," one of the biggest obstacles in achieving user control over the housing process was the problem of unrealistic building standards. Turner recommended deregulation to support the decentralization of housing production.

The chief progressive outcome of Turner's work was a gradual realization that housing conditions can considerably improve in squatter settlements over a period of time. As a consequence, many governments restricted their programs of slum clearance and introduced programs of slum improvement and upgrading. But there were two main critiques of Turner's vision. First, it failed to recognize that in the absence of State intervention, "freedom to build" was unlikely because for the vast majority of the poor, choices were constrained (Gilbert, 1982; Ward, 1982). Second, there was little elaboration on how to implement and institutionally support people-oriented housing policies.

Enabling the Markets

By the late eighties, international development agencies had concluded that in order to achieve progress in the housing sector, it was necessary to work more closely with

market-actors and further reduce the involvement of the State. This was to be the "enabling" strategy (UNCHS, 1990; World Bank, 1993). The recommendation paralleled the counsel bilateral and multilateral donors, western governments and non-governmental organizations (NGOs) were dispensing in other fields of development. Much of the advice was based on the perceived failures of government policy. As Judith Tendler pointed out, "... the advice is directed at limiting the 'damage' the public sector can do in developing countries," (Tendler, 1997, pp. 1-2).

The key policy element in the package of advice was decentralization. Decentralization was defined as the dispersal of power and responsibility (Litvack, *et al.*, 1998). Supporters of decentralization argued that central agencies were ineffective, inefficient, produced dissatisfying results and weakened local capacity in the long run (Rondinelli, *et al.*, 1989). Like the Turner school, they argued for the transferring of responsibility to the people (Korten, 1990) and to communities (Ostrom, 1990), with calls for local control and "people-centered development" (Gran, 1983; Korten & Klauss, 1984). Others claimed that development could only occur through local control and local organizations had to be protected from centers of power (Wunsch & Olowu 1990).

An important premise on which support for decentralization was based was that it led to better information about local preferences (Litvack, *et al.*, 1998). Higher and detached forms of government were criticized for their lack of sensitivity to local needs and priorities, and their use of standard procedures. A consequence was the ascendance of demand-driven development strategies (Glaessner, *et al.*, 1995). A perceived economic advantage of demand-driven strategies was that they were more efficient and resulted in a better chance of cost recovery, because they led to a stronger willingness to pay from beneficiaries (World Bank, 1993).

Another important element of enabling is the role of markets. The World Bank, in an extremely influential policy document, *Housing: Enabling Markets to Work,* made two main recommendations: First, governments must restrain from intervening in housing and land markets and allow the markets to function more

efficiently; second, housing must be treated as an economic, and not a social sector (1993). In essence, the document argued for the privatization of housing delivery.

To support market-delivery of housing, the policy document made a number of suggestions. It advised governments to develop property rights (specifically private property rights), develop mortgage finance instruments, and mutual credit associations for housing consumers, etc. The key policy advice to support privatization, however, was deregulation. The policy document specifically promoted the example of successful deregulation in Thailand (Bangkok) and Mexico in contrast to stifling regulation in India and Malaysia. This can be attributed to the belief of World Bank associated researchers that "... there is a systematic tendency to overregulate," in most countries (Malpezzi, 1994, p. 455. Also see Malpezzi, 1990; World Bank, 1991; Zearley, 1993).

In summary, Turner's demand for autonomy of users, along with calls for people-centered development and the castigation of government ineptness in understanding the economics of housing, helped make decentralization a key component of the enabling strategy. Decentralization was also presumed to allow for demand-driven development. Thereby, satisfying users needs, as well as fostering a better chance of economic sustainability as advocated by the World Bank. With the belief that communities needed institutional support, markets were promoted as the new messiah. Moreover, since it was assumed that decentralization worked and since privatization and deregulation were argued to be an organizational form of decentralization (Rondinelli, *et al.*, 1989), there was a further rationale for working with the markets.

It would seem that all these logical arguments and rationales coalesce together to allow an attractive and simple model of enabling to emerge. According to this model, the enabling approach consists of decentralization, demand-driven development, privatization and deregulation. However, there are major shortcomings in this conceptualization. It is merely based on doing the opposite of what is believed to have failed. There is limited empirical evidence to substantiate that the opposite will work, or that it is the best, and only, alternative.

Not surprisingly, critics questioned the assertions made about the various components of the enabling strategy. Scholars criticized the claims made about decentralization and cautioned against the potential drawbacks of decentralization, in particular the dangers of the local elite controlling power undemocratically and possible unevenness in growth and development (Hommes, 1996; Prud'homme, 1995). Critics also pointed to earlier studies of decentralization that had observed that decentralization efforts had to be complemented by a strong public center(s) (Cohen, *et al.*, 1981; Montgomery, 1972). However, in the context of housing provision, there is very limited empirical analysis to demonstrate the limitations associated with decentralization. Similarly, in the context of demand-driven development, theoretically, the approach is expected to lead to beneficiaries being able to choose development strategies. But, choices are constrained. It is quite conceivable that, paradoxically, the government may have a more active role to play in order to help potential beneficiaries pursue their preferences.

In terms of privatization, many critics of the World Bank's market-based approach warned about the adverse impacts on the poor (Baken & Linden, 1993; Jones & Ward, 1995). Similarly, others pointed to the continuing need for more direct support for the majority of those who need housing (Jones, 1996; Siembieda & Moreno, 1997). Moreover, the enabling approach implicitly assumed that for the private sector to perform effectively, the key need is deregulation of policy controls. However, it is more likely that deregulation has to be followed by new regulations?

Although, most of the critics of the market-based approach recognize the need to make housing policy work within the framework of markets, they disagree with the assertion that privatization and deregulation are the solution. Apart from concerns for the poor and the vulnerable, a key question is what kind of institutional support does successful private delivery of housing require? Will well-functioning, efficient and responsive markets form automatically because of the absence of government intervention? It seems more reasonable to suggest that markets have to be created, at times with active government support. However, in the housing literature, except for the focus on property rights, there is little empirically-based

discussion of how the State may help to enable the production and exchange of housing.

The World Bank's World Development Report of 1999-2000, *Entering the 21st Century*, acknowledged the complexities involved in decentralization, demand-driven development, privatization and deregulation (2000). It stated that governments have a vital role to play in development. In a similar vein, contrary to any simplistic conception of policy advice, the Mumbai case reveals an intricate story.

Slum Redevelopment in Mumbai

Mumbai's slum redevelopment strategy of demolishing slums and building cross-subsidized housing for the slum dwellers on the original site has been implemented through three successive redevelopment programs. The first program started in 1985. At introduction, the program was based on a policy of limited partial subsidy for the slum dwellers. However, a cross-subsidy component was subsequently introduced in the same program. The second and the third programs further increased the cross-subsidy for the slum dwellers.

Mumbai, the Country's Financial Capital

Mumbai, on the west-coast of India, is the capital of the state of Maharashtra. It is also the country's financial and industrial capital. Encouraged by the country's economic liberalization reforms in the nineties, many multinational corporations made the city their south Asian regional head-office. As a consequence of the business interests in Mumbai, and immense property speculation, property values in the city were extremely high in the nineties. By the mid-nineties, real estate prices peaked and were among the highest in the world (*Economist*, 1995). At the same time, some of the world's poorest live in Mumbai. According to the 1991 census estimates, over half of Mumbai's population lived in slums (Panwalkar, 1996). Like many cities of the developing world, numerous strategies to deal with the slums have been implemented in Mumbai. In the fifties, the state government initiated programs

of slum clearance. In 1971, however, it replaced clearance with the Slum Improvement Program. The improvement projects focused on the provision of basic amenities and infrastructure. Subsequently, in the 1980s, the state government, with the World Bank's support, introduced two important housing initiatives: A sites and services program and a Slum Upgrading Program (SUP) based on a policy of in-situ upgrading through tenure legalization. The programs were in accordance with the prevailing policy advice. Since the mid-eighties, however, the state government has supported the contrarian redevelopment strategy and has implemented three successive programs. The redevelopment programs are briefly described below.

First Generation: Prime Minister's Grant Project (PMGP)

In 1985, the central government made a grant of one billion rupees to the state government of Maharashtra to improve housing conditions in Mumbai. With the intention to avoid bureaucratic delays and to ensure faster project implementation, the state government created a special centralized division, the Prime Minister's Grant Project (PMGP), within the state housing authority to oversee the project (Dua, 1989). One of the main proposals of the PMGP was the redevelopment of Dharavi.

Dharavi, strategically located near the heart of Mumbai, is infamous as Asia's largest slum (see, Figure 1). It is extremely dense. According to the state government records, in 1985, Dharavi had a population of 300,000, within an area of 425 acres (Warning, 1995). Every year, during the monsoons, Dharavi flooded with waist-high water containing raw sewage from the open drains. The PMGP aimed to improve these living conditions by redeveloping Dharavi with an appropriate density and infrastructure. It proposed a program of Slum Reconstruction and recommended that only 30-35,000 families be accommodated in Dharavi, in four to five floor high apartments. 20,000 families were to be relocated outside Dharavi.

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Not surprisingly, Dharavi's residents were worried by the proposal. They feared that they were being removed to make it possible for private developers to capitalize on the potentially high land values in Dharavi. A number of Mumbai's non-governmental organizations (NGOs) criticized the proposed displacement. A well-respected NGO, the Society for the Promotion of Area Resource Centres (SPARC), organized a census of Dharavi and claimed that the settlement had a population of 500,000 residents or 100,000 families. Thus, if the PMGP's proposal for Dharavi was implemented, over 65,000 families would be displaced.

The PMGP was unprepared for the strong criticism and the large-scale of off-site resettlement. Not only was relocation at such a scale politically difficult, the organization lacked the required land or financial resources for implementation. Consequently, the PMGP revised its initial proposal and decided to limit Slum Reconstruction to a pilot effort of 3,800 houses organized as cooperatives. The cooperatives were to be provided thirty-year, renewable, leases to the redeveloped land. To serve more beneficiaries, the PMGP also decided to upgrade 25,000 houses. It is noteworthy that, according to the PMGP's officials, Dharavi's residents were less interested in the in-situ upgrading option. On the contrary, there was a strong demand and intense competition among the residents to have their houses selected among the 3,800 units to be redeveloped. This was partly because the PMGP was supporting residents who were opting for Slum Reconstruction with a direct subsidy of ten percent and an interest-free loan for twenty percent of the construction cost. However, another important incentive for the slum dwellers was the potential appreciation in the property values of their housing assets because of the redevelopment.

But as construction schedules on various slum reconstruction projects progressed, construction-work had to slow down because of inaccurate cost estimates, inflating costs, the inability of beneficiaries to keep up with the required payments, and the complexities involved in implementing a redevelopment strategy. To bridge the gap between the actual cost of the projects and the PMGP's initial estimates, the PMGP decided that members of the cooperatives that were receiving

commercial properties (shops), must pay one and a half times the cost of housing. The PMGP rationalized the proposal on the basis of commercial properties being one and a half, to twice, as valuable as residential properties. The additional payments from the commercial members were intended to cross-subsidize the residential members. However, financial problems persisted in the implementation of projects. Moreover, the PMGP as a single agency responsible for redevelopment, found its institutional capacity stretched in implementing such a complex strategy.

As Slum Reconstruction under the PMGP progressed, state policy-makers appear to have learnt at least four lessons. First, there was a constituency for redevelopment, slum dwellers were willing to allow the redevelopment of their slums and live in medium-rise apartments if they could benefit by obtaining more valuable housing. Second, despite the slum dwellers' interest, redevelopment was expensive and not all slum dwellers were able to keep up with the expenses. Third, there was a possibility of creating cross-subsidy for the slum dwellers. Finally, and in accordance with the emerging conventional wisdom, the government needed to involve the private market actors to invest in, and manage, redevelopment.

Second Generation: Slum Redevelopment Scheme (SRD)

Politics in Mumbai is polarized between the Congress party and the Shiv Sena. In 1985, the Shiv Sena with its allies won the city's municipal council elections for the first time. In 1990, its leader proposed that if his party were elected to power at the state level, it would institute a program of "free-housing" through slum redevelopment. Like the PMGP's Slum Reconstruction program, slum dwellers would be resettled in new apartments on the original sites. However, unlike the PMGP, the cost of housing would be entirely cross-subsidized by private sector developers (*Times of India*, 1990). To make the cross-subsidy viable, the state government would intervene in the land development regulations and increase the maximum allowed intensity and density of development. This would allow the private developers to build additional floor space, sell it in the market, profit from

the development and cross-subsidize the slum dwellers. The Shiv Sena, however, lost the state election to the Congress party and its allies.

Nonetheless, the Congress party found it politically necessary to introduce a similar program of housing improvement for Mumbai's slums. In 1991, the Congress state government launched the Slum Redevelopment Scheme (SRD), (*Times of India*, 1991). Unlike the PMGP, the state government designed the SRD as a decentralized, private sector initiative. The government invited private developers to be the promoters (developers) in redeveloping the slums under the condition that slum dwellers be resettled on the original site in houses of 17-21 square meter (180-225 square feet) carpet area, with the beneficiaries paying only Rs.15,000 (approximately 23 percent of the estimated cost of construction) per house.

To make the scheme feasible, the SRD allowed project promoters to develop additional floor space on the slum land by increasing the maximum allowed built-up area, measured in terms of Floor Area Ratio (FAR), by more than a hundred percent. The SRD, however, placed two key restrictions on the redevelopment projects. First, it limited the allowed profit for developers to 25 percent of their investment. Second, it capped the maximum allowed FAR at 2.5. Thus, the anticipated profit from the projects was to be the key variable to determine the allowed FAR for redevelopment. To determine the allowed FAR and approve proposals, the state government instituted a special decentralized committee - the SRD Committee. This committee was composed of officials from the municipal corporation and various state government agencies. The SRD committee was more accessible to private businesses and had the authority to alter old PMGP (Slum Reconstruction) projects to meet the new stipulations. Private developers could request such alterations and replace the PMGP as the developing agency in redevelopment projects, provided their requests were supported by the slum dwellers' cooperatives.

However, there was little progress in the implementation of redevelopment. Private developers were skeptical about the scheme. The profit cap of 25 percent was impractical. Moreover, in the financial model set-up by the SRD committee to calculate a developer's profit, and thereby, the maximum allowed FAR; there was no

place to factor in interest rates and the developer's cost of finance! Developers also claimed that the government was even more oblivious to the financial value of time, and approval procedures were too complicated and slow (Afzulpurkar, 1995). Furthermore, conflicts and disagreements among community members, private developers, and among communities and developers, were responsible for delays.

Third Generation: Slum Rehabilitation Scheme (SRS)

In the 1995 state elections, the Congress party lost to the Shiv Sena. The Shiv Sena had reiterated its promise of free-housing in the election campaign. The proposal might have appeared credible to the electorate because of the existing SRD and Mumbai's extremely buoyant property market. In 1995, Mumbai's property values reached a historic high with certain real-estate transactions being comparable to the highest international prices (Nayar, 1996). The newly elected Government of Maharashtra, in one of its first policy decisions, announced its intention to replace the SRD with a new program, the Slum Rehabilitation Scheme (SRS). The government claimed that the SRD was unsuccessful and unattractive to developers and slum dwellers. Only 185 proposals of redevelopment had been submitted (Afzulpurkar, 1995, p. 39). To recommend new implementation guidelines, the state government instituted an advisory committee, the Afzulpurkar committee, to analyze the past experience.

The Afzulpurkar committee was composed of invited bureaucrats, private developers and representatives of the civil society. In its report to the government, the committee made a number of recommendations. The government accepted most of the proposals. Some of the key features are noted below.

From the perspective of the slum dwellers, the report proposed that all slum dwellers resident in Mumbai prior to the first of January, 1995, be eligible for redevelopment benefits (p. 6). Second, it suggested that a standard area of 21 square meters (225 square feet) be provided to all beneficiaries (p. 225). Third, it proposed an abatement in municipal property taxes for the first ten years, followed by a progressive increase over the next ten years (p. 72). Finally, the report recommended

that developers be required to establish a corpus fund of Rs.20,000 per slum dweller's house (approximately, thirteen percent of the estimated cost of construction) for future maintenance expenditure (p. 72).

From the perspective of the developers, the report proposed that the profit ceiling be deregulated (p. 37). Second, maximum FAR be capped at 2.5, but be awarded on a predictable, as-of-right basis and the city be divided into three zones with different but specific ratios between the area provided to rehabilitate the slum dwellers and the area allowed for sale (p. 44). The intention was to allow larger market-sale areas in locations where the expected sale-price was lower (see, Table 1), and faster approvals. Third, the report recognized that in many cases the densities within some slums were so high that the developers would not be able to take full advantage of the allowed market-sale area if the FAR ceiling of 2.5 was implemented. For such cases, it proposed that the developers be allowed to transfer their development rights to alternative sites in the city.

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And finally, from the perspective of governance, the report criticized the decentralized SRD committee and strongly recommended that a central authority be established to coordinate and monitor the progress of redevelopment projects (p. 23-24). It also suggested, that the authority, operate as a single-window agency to provide faster planning permissions and approvals (p. 26). Second, it proposed that the state government explore the possibility of government agencies being involved directly as developers of slum redevelopment projects. The advantage being that the government could financially structure projects that combined slums in areas where the real estate values were low, and redevelopment not financially viable, with slums where profits were more substantial.

Based on the Afzulpurkar committee's recommendations, the state government incorporated the Slum Rehabilitation Authority (SRA) as the, centralized, single-window agency to approve projects and institute regulatory

changes to improve project implementation. In 1997, the SRA relaxed many building codes, including reductions in fire-safety requirements, removal of minimum size requirements for kitchens and toilets, and reduction in open space requirements (MHADA, 1997). These regulatory changes were designed to increase the financial feasibility of redevelopment projects. However, at the same time, property values, which are key in this scheme, dropped. By 1998, it was widely accepted that Mumbai's property values had returned to 1993 levels, and that the spectacular rise in prices from 1992-1995 was being corrected (Colliers Jardine, 1998).

By March 2000, however, only 3,486 units had been built for housing the slum dwellers through the SRS (*Times of India*, 2000). Although, this number does not include the almost 2,000 houses developed through the PMGP, progress through the redevelopment strategy was still limited. Nonetheless, an interesting aspect of the redevelopment experience was that over 75,000 slum-households, had expressed an interest in having their slums redeveloped (see, Table 2). They were interested in obtaining a more valuable housing asset. But the number of households was still less than ten percent of the nominally eligible beneficiaries in the city.

The drop in property values, also, adversely impacted the viability of the scheme. Moreover, it is possible that some developers were delaying their projects in speculation. It is also important to recognize that the scheme was not allowed in slums in "dangerous locations," (hill slopes, under power-lines), and along the coast, where development is prohibited. Conflicts were still responsible for delays. Moreover, developers blamed the lack of institutionalized development finance as a major impediment in construction (*Indian Express*, 1997; *Times of India*, 1997).

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The Paradox of Enabling

The main story of Mumbai's slum redevelopment experience, as narrated in this paper, is not about the success or failure of a housing strategy. Slum redevelopment as a strategy, has limited potential. The case, nonetheless, reveals the institutional

complexities involved in project implementation and housing delivery. This section focuses on the paradoxes in public policy and the appropriate role of government in an enabling approach.

Decentralization and Centralization

The first redevelopment program, the PMGP, was implemented through a centralized institution. In the late-eighties, private sector for profit actors and NGOs pleaded, bargained and even contested with the State for the opportunity to be involved in the PMGP, but they were not allowed. However, by the nineties when the SRD was introduced, the State found it imperative to attract private investors and expertise. In the SRS, the intent to decentralize advanced another step forward and the State structured special incentives (in terms of additional market-sale area allowances) for the involvement of NGOs and community cooperatives in redevelopment projects (Government of Maharashtra, 1997).

Paradoxically, concomitant with the progress in decentralization was the demand by local level decentralized actors involved in redevelopment for some form of centralization of authority to enable project implementation. Private sector and civil society representatives in the Afzulpurkar committee unanimously agreed that the Slum Rehabilitation Authority coordinate and monitor progress of projects and operate on a single-window clearance basis for faster approval of projects. The rationale behind the demand was that speedy approval, and thereby, faster housing delivery, is a key variable for consideration in the property market. Especially when the property values are significantly high. Similarly, as disputes regarding the distribution of gains in redevelopment projects became more prevalent and intensified, decentralized actors asked the centralized authority to intervene and arbitrate. Again, the motivation behind the demand, for centralization, was timely conflict resolution.

Privatization and Public Investment

The state government expected the private sector to finance the redevelopment of slums. In many redevelopment projects on public land, it transferred the land ownership to private actors – slum dwellers' cooperatives and private developers. However, the private actors claimed that they were unsuccessful in accessing finance for the construction of projects.

In Mumbai, as in most of the developing world, there is a lack of formal institutions to provide construction finance. Furthermore, slum land is likely to be regarded as tricky collateral by most lenders. Traditionally, construction activity has been financed by capital from buyers, either speculators or end-users. The industry refers to this as "pre-sale." But in the context of slum redevelopment, developers claimed that it was difficult to arrange for pre-sale financing, as the projects were perceived as too risky. The drop in property prices, after 1995, further hurt the ability of developers to raise capital. Even projects that were financially viable were stalled because of the lack of funds (*Times of India*, 1997). Consequently, the developers asked the state government to provide them with development finance.

The Shiv Sena state government instituted a new housing finance corporation, the Shiv-Sahi Punarvasan Prakalap Limited (SPPL) to finance redevelopment projects. The corporation was established with public funds and was expected to use the government money to raise additional funds from the capital markets (*Times of India*, 1998a). But, in December 1999, the new Congress Party led state government decided that the SPPL would not finance any new projects. By that time, the corporation had started financing 29 redevelopment projects (*Times of India*, 1999). However, there were indications that the Congress government may revise its decision (*Times of India*, 2000).

Furthermore, the central government will, probably, have to play a key role in developing secondary markets in real estate, to enhance the lending ability and liquidity of primary lenders that lend to developers and home-buyers. The central government may also have to play the pivotal role in developing institutional insurance systems to safeguard lenders.

Deregulation and New Regulations

To facilitate slum redevelopment, the state government revised many land development regulations. It changed land use plans, increased FAR limits and relaxed, and even removed, some building code requirements. Moreover, a key feature of the SRS was that profit limits on private developers were deregulated.

At the same time, slum redevelopment is a cross-subsidy strategy. As more housing supply enters the market, real estate values are likely to fall, making cross-subsidy financially more difficult. The question is how fast is this going to happen. If projects are developed with higher FAR than allowed, the larger viability of cross-subsidy schemes is hurt faster. Evidence from Mumbai indicates that redevelopment projects were being built with FARs as high as five, even though the maximum allowed was only two and a half (*Times of India*, 1998b). This suggests a need for governments to strictly regulate the consumption of FAR in cities, if they intend to use cross-subsidy strategies to provide affordable housing. Moreover, Mumbai's experience also indicates the need to regulate the construction quality of the houses provided to the slum dwellers through redevelopment. Preliminary evidence suggests that the quality is sub-standard (*Indian Express*, 1995).

Demand-driven and Supply-driven Development Strategies

A defining characteristic of the slum redevelopment strategy is that it is a State sponsored initiative (supply-driven strategy). It is based on the ability of governments to modify land development regulations creatively. At the same time, slum redevelopment recognizes the preference of most beneficiaries for living in the same location. However, the strategy is a major departure from the expected demand-side preference of slum dwellers for slum improvement through in-situ upgrading (Turner, 1972; 1977). Critics of slum redevelopment claimed that slum dwellers would not be interested in redevelopment projects as it was a supply-driven strategy that involved living in medium-rise apartment blocks, and thus, was insensitive to demand-side preferences for ground-level living (Singh & Das, 1995;

Times of India, 1995). Nonetheless, the evidence is conflicting and there is demand from Mumbai's slum dwellers to have their slums redeveloped. Moreover, newspaper reports indicate that slum dwellers are actually contesting with private developers and among themselves, for the right to redevelop their settlements (*Indian Express*, 1997). A major reason for the interest in this strategy is that it creates more valuable property assets.

Conclusion: Enabling Housing Provision

It would be much simpler for policy-makers, if enabling consisted of decentralization, privatization, deregulation and demand-driven development. However, the conceptual validity of a simplistic approach is questionable. Enabling is a complicated task with paradoxical policy demands on governments.

The Mumbai experience illustrates that decentralization is important and the involvement of the private market-actors, and the civil society, in housing provision has increased considerably from the mid-eighties. However, at the same time, the decentralized actors asked the state government to institute a centralized authority to provide fast-track planning permission and to expeditiously resolve conflicts among the different actors. Similarly, slum redevelopment is based on leveraging the skills and resources of the private sector. However, the private developers engaged in slum redevelopment found it difficult to raise development finance for construction. These developers asked the state government to provide them with funding.

Furthermore, a key feature of the slum redevelopment strategy is a relaxation in land and building development regulations and the deregulation of profit limits for developers. Nonetheless, the implementation experience demonstrates that the government has to strictly regulate the consumption of FAR in the city, as well as the quality of the housing that the developers construct to rehabilitate the slum dwellers for the right to build additional floor area. Finally, despite being a supply-driven strategy, slum redevelopment is attractive to Mumbai's slum dwellers because it recognizes their dislike of displacement and provides them with more valuable housing.

It is imperative not to underestimate the potential role of formal market actors in housing delivery. There is tremendous scope for governments to reform and leverage private skills, and enhance the private sector's involvement. But policy-makers need more empirically based observations of how private market actors operate in places like Mumbai. What kind of difficulties do they encounter in housing delivery? Nonetheless, there are limitations to the role of private actors. They need to profit, and they can be risk-averse. Not only do they need institutional support; in the absence of institutionalized incentives, they are unlikely to play a major role in housing the poor. Enabling housing provision is much more complicated than a simplistic enthusiasm for markets.

Housing provision through market mechanisms is likely to be paradoxical and may require seeming policy contradictions. Enabling is likely to involve both decentralization and centralization; both privatization and public investment; both deregulation and new regulations, and both demand-driven and supply-driven development. This complex and more sophisticated role of the State is necessary to provide the institutional support for well functioning property markets, as well as to capture the opportunities high value property markets provide. For policy-makers, it is important to recognize the complexities involved in providing housing for low-income groups. It is unlikely that there are easy, workable solutions.

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Table 1: Ratio between the Rehabilitation and Market-sale area, SRS

Location	Rehabilitation Area	Market-sale Area
Island City	1.00	0.75
Suburbs	1.00	1.00
Difficult Areas*	1.00	1.33

Source: Government of Maharashtra, 1997

Table 2: Slum Rehabilitation Scheme Projects in Mumbai, 1998*

		Proposals Received	Proposals Approved	Under Construction	With Occupation Certificates
Total Schemes	No. of Projects	446	367	145	26
	No. of Units	NA	75,689	29,142	2,242

Source: Personal communication, Slum Rehabilitation Authority, August 1998

***** Includes projects that were initiated through the Slum Redevelopment Scheme

Key: NA = Not Available

Figure 1: Map of Mumbai showing Dharavi

* The Slum Rehabilitation Authority (SRA) had the mandate to declare any slum as a "difficult area," thus increasing the market-sale area allocated to developers. At the time of this research, only Dharavi was declared as a difficult area.